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BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388 (Sub-No. 91)



CSX CORPORATION AND CSX TRANSPORTATION, INC.
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
-CONTROL AND OPERATING LEASES/AGREEMENT-
CONRAIL, INC. AND CONSOLIDATED RAIL CORPORATION

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[GENERAL OVERSIGHT]

WRITTEN STATEMENT OF R. ADM. RICHARD M. LARRABEE, USCG RET.
ON BEHALF OF THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

My name is Richard M. Larrabee, and I am Director of Port Commerce for the Port Authority of New York and New Jersey. In that capacity, I am responsible for the promotion, protection and development of the Port of New York and New Jersey, and the initiation, development and operation of the facilities and programs that support the region's economy.

My responsibilities include management and direction of the Port Authority's marine terminals in Elizabeth and Newark, New Jersey as well as in Brooklyn and Staten Island, New York. I am responsible for guiding policy implementation for the Port Commerce Department in such areas as dredging, new business development, long-range planning and financial matters. The Port Authority's relationships with rail carriers serving its marine terminal and other facilities are the responsibility of the Port Commerce Department.

The Port Authority submitted comments at the hearings in Trenton last month regarding the cooperation that has existed among the carriers and the Port Authority within the North Jersey Shared Assets Area. In those comments it was pointed out that, due in large part to Port Authority investments in terminal facilities and on-dock rail facilities, rail volumes moving through the New York/New Jersey Port have dramatically increased over the last ten years. In 1993, the Port handled some 50,000 rail containers of export/import freight. Last year that number had grown to 233,000 containers, and for the first quarter of 2004, the number of containers has been 28 percent higher than the same period in 2003. In Trenton, the Port Authority also noted that its plans call for the investment of \$438 million between 2002 and 2009 to improve and expand rail capacity at facilities served by Conrail, CSX and Norfolk Southern.

By statute, the Port Authority is limited as to the geographic area within which it may make capital investments. The Port Authority may not invest in projects outside the Port District, which is roughly a 25 radius around the Statue of Liberty. Accordingly, while the Port Authority can seek to improve the infrastructure upon which efficient rail transportation depends within the Port District, it is wholly dependent upon the carriers, and others to maintain the efficiency of the inland rail transportation network outside that District. We look to the Board to be vigilant in protecting our strategic investments for our port and our nation and, we look to the Board to encourage the railroads to provide timely and reliable service to our region's consumers and businesses so that we may maximize the return on the rail infrastructure investments made by the Port Authority and our regional partners.

During the middle of the previous century, the Port of New York/New Jersey was served by as many as seven Class I rail carriers. Unfortunately, for a host of reasons, the service provided by those ultimately bankrupt carriers was at a level that the Port became almost entirely dependent upon motor carrier service. This, of course, led to the inevitable truck congestion that has clogged the highways of the Northeast to this day. In 1975, with the formation of Conrail the Port lost intramodal rail competition as only Conrail served the Port in any meaningful way. The Port did, however, obtain some competitive relief in the form of geographic competition with Conrail serving New York/New Jersey as its main port while other carriers served competing North and South Atlantic ports. While this geographic competition did prod Conrail to improve service and take innovative steps that allowed for some growth in the Port's rail traffic, it did not provide similar geographic competition for the region generally. It was the consistent position of the Port Authority that the Port, as the largest port in the nation served by a single rail carrier to any significant degree, was at a serious disadvantage versus competing ports. Similarly, the region, the largest in the nation served by a single rail carrier, was also at a substantial disadvantage. Thus, the Port Authority consistently sought a second major carrier to serve the Port and the region.

The acquisition of Conrail by CSX and Norfolk Southern has provided for that long-awaited intramodal competition at the Port and in the region. While the Port Authority did have some reservations regarding the ability of the financially strained acquiring carriers to provide for the necessary infrastructure improvements within the Shared Assets Area, it ultimately supported the Conrail acquisition before this Board. I am pleased to report to you that that has proven to have been a wise decision.

The head to head competition between CSX and Norfolk Southern has resulted in significant innovation and the growth in the Port's rail traffic to which I previously referred. CSX and Norfolk Southern are not, however, solely responsible for the growth in traffic. The entire rail network must operate smoothly and efficiently if operations in any one region of the country are to prosper. While we at the Port of New York/New Jersey must look to CSX and Norfolk Southern for efficient service, they, in turn, must look to their connections for the same efficiencies.

Recent press reports of trouble brewing on the Union Pacific are giving us pause. To the extent that such operational problems spread to the East, as they did during the post Union Pacific/Southern Pacific merger period, the welfare of the Port's rail operations could be prejudiced. The Port Authority fully recognizes the difficulties that you, Mr. Chairman have faced in being the sole Board member during the recent past, and we hope that assistance is on the way. With a full compliment of Board members we trust that you will continue active oversight of the rail network, not merely with respect to the Conrail acquisition, but with respect to the entire network. To the extent that further Board actions become necessary to prevent service disruptions that threaten to slow traffic growth through the Port of New York/New Jersey, and to slow economic growth generally, we trust that the Board will be quick to respond to take such actions.

Thank you Mr. Chairman for the opportunity to present these remarks.